The Washington Post
Democracy Dies in Darkness

Downtown D.C.'s struggles mount as many workers remain remote

By Paul Schwartzman

January 27, 2023 at 12:22 p.m. EST

As his only tenant was moving out the other day, Anthony Lanier walked through his glass office tower in downtown Washington, all too aware of the looming financial danger he faces.

Mortgage payments of about $1 million a month. A $3 million annual property tax bill.

And, beginning in March, no rental income.

In September, Lanier installed on the outside of his building near the White House a promotional splash worthy of Times Square: a 13-story-high, bright greenish-yellow sign offering discounted rent, "move in ready" offices, and the almost unheard-of option of "month-to-month" leases.

"See it to believe it!" declares a second, equally impossible-to-miss billboard overlooking Pennsylvania Avenue NW.

Lanier, whose hunt for a new tenant began before 2020, is still searching for a deal. He fears it could be two years before he replaces WilmerHale, the law firm that has occupied his building since it opened in 2006 and is moving to a new tower across the street.

"It's humbling," Lanier said as he walked the empty corridors of what he touts as "the best 300,000 square feet in Washington," with a 150-foot-high atrium, lobby waterfall and rooftop views of the Washington Monument. "There are a lot of desperate real estate owners out there."

As the third anniversary of the pandemic approaches, downtown Washington is a wounded rendition of its once robust self. Even as more of the workforce shows up daily, many streets at the city's core are pocked by vacant storefronts, moribund sidewalks and offices that, even on the busiest days, are just over half occupied.

Mayor Muriel E. Bowser (D) has made the reinvention of downtown an urgent centerpiece of her agenda as she begins her third term. She promises to encourage the conversion of enough downtown offices to apartments over the next five years to help accommodate 15,000 new residents, an aspiration that has prompted a mix of interest and skepticism among developers.

Yet a newly constituted downtown could take years to materialize. In the meantime, D.C. leaders and business executives worry that declining tax assessments of large office buildings — already down more than 10 percent because of vacancies and an anemic sales market, according to city records — could significantly erode the revenue needed to fund public services. "We have to protect our current commercial property tax base — just period, end of story," the mayor told The Washington Post's editorial board recently.

During the economic downturn that followed the Sept. 11, 2001, attacks and the 2008 recession, D.C. officials could depend on the presence of tens of thousands of federal workers to keep money coursing through downtown. But now, with most federal employees still working at home — despite the pandemic's easing and Bowser's pleas that the Biden administration require in-person work — downtown can still feel like a deflated balloon.

A couple of blocks from the White House, an encampment of 70 tents splayed across McPherson Square is occupied by dozens of people who don't have homes. At Metro Center, a security guard sits behind the locked entrance to a handsome 12-story office building that remains empty eight months after its only tenant, the law firm of Williams & Connolly, decamped to new headquarters at the Wharf.

On Seventh Street between Indiana and Massachusetts avenues NW, a strip that includes the Capital One Arena, there are nearly 20 vacant storefronts, including those once leased by Urban Outfitters and Bed Bath & Beyond. At Gallery Place, a popular multiplex cinema — part of a chain of 39 theaters that are shuttering nationwide — is closing in February.

"We've been lonely," said Howard Marks, 78, standing outside his Gallery Place condominium, where he has lived with his wife since 2014. "We miss the office workers, and we miss the people on the street. It has been pretty much a ghost town."

What has proliferated, he said, is a regular crowd of marijuana dealers and users who have taken to congregating outside the Metro station at the corner of Seventh and H streets NW, a few steps from the Chinatown arch, as well as his building, where two-bedroom condos list for over $500,000. "It feels like the criminals have taken over, that young people can do whatever they want," Marks said as a man walked by smoking a thick joint.

Ten blocks west, Philip "Pete" Evans, an attorney at Holland & Knight, walked through a mostly empty floor of his firm's downtown headquarters, a glass high-rise on 17th Street NW. Evans, 62, has commuted to his office nine out of every 10 work days through much of the pandemic. But most colleagues, he said, show up less regularly, with attendance peaking at 50 to 60 percent on Wednesdays.

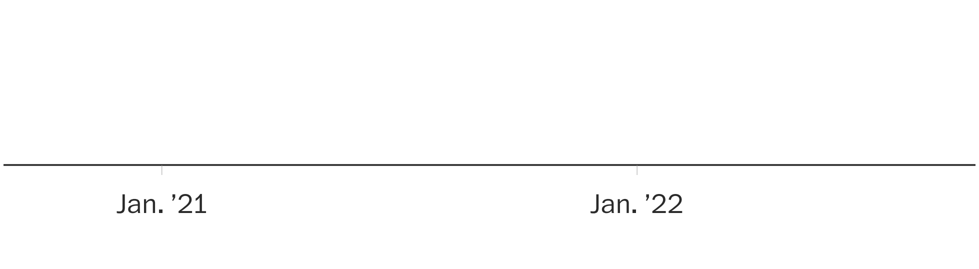
“It’s not as bad as it was — it was a true ghost town,” said Evans, who misses the camaraderie of in-person meetings and collaborations. “I can only do so much by Zoom.”

He said he hopes that Washington law firms emulate those in New York that are making in-person work more of a requirement than a suggestion. But it’s anyone’s guess when and if that will happen, and how it would be enforced.

An oversupply of offices

As of the third week of January, the percentage of workers showing up at their downtown offices reached a weekly average of 45 percent, with that number rising to 54 percent on Wednesdays, according to data collected by Kastle Systems, which measures traffic through access cards (the weakest days are those adjacent to weekends).

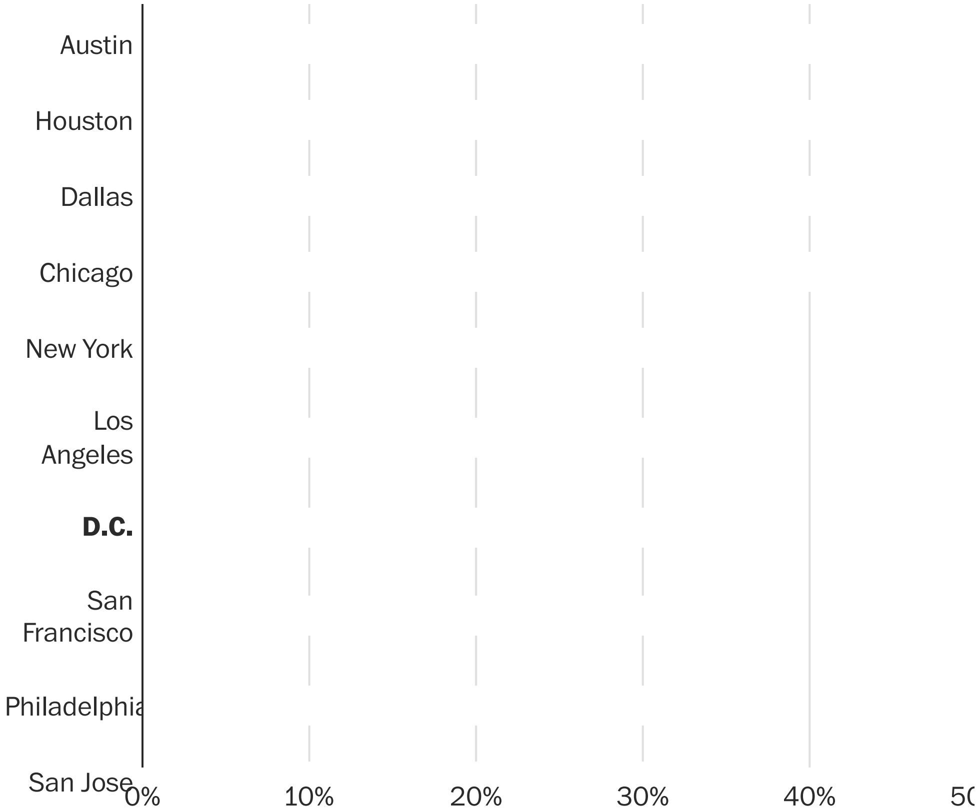
Average weekly in-person work rates in downtown D.C.



Source: Kastle Systems as provided by DowntownDC BID THE WASHINGTON POST

While ahead of cities such as San Jose and Philadelphia, Washington’s attendance rate lags behind New York, Chicago and Dallas, perhaps because a quarter of D.C.’s workforce are federal employees, many of whom can work anywhere they can plug in their laptops. The rates in Houston and Austin are 61 percent and 65 percent, respectively.

In-person work rates for 10 metro areas on 1/18/23



Even before the pandemic, downtown Washington had an oversupply of offices that was aggravated by the emergence of telework and competition from emerging neighborhoods such as the Wharf. That dynamic has only accelerated since 2020. According to a 2022 survey by the D.C. Policy Center, 137 of the city's 733 large office buildings — most of them downtown — had vacancy rates of more than 25 percent. An analyses by the CBRE real estate firm found that vacancy rates by the end of 2022 had reached 20 percent in the city's most modern offices and nearly 25 percent in older buildings.

As a result of the vacancies, owners of office buildings are filing an increasing number of challenges to the city's property tax assessments. In 2021, 340 owners in the central business district asked for a second round of review of their assessments, an increase from 297 in 2019, according to the Office of the Chief Financial Officer. The number dipped to 319 in 2022.

In the case of Lanier's building at 1875 Pennsylvania Ave. NW, assessors lowered the value from $249 million in 2021 to $166 million in 2022, according to tax records. Lanier's property tax payments fell from nearly $4.7 million in 2021 to $3.1 million last year, the records show. The current assessment is even lower at $154 million, which Lanier is also appealing.

Overall, after increasing for several years, the assessed value of D.C.'s large office buildings dropped by 13 percent, from $69 billion to $60 billion, in 2021, according to data published by the city in August. As a result, property tax liability for large office buildings fell by $150 million in 2022, the data shows. The decline in revenue derived from large downtown office properties — a pool that comprised 8.5 percent of total D.C. revenue last year — is occurring as the city also faces the impending loss of pandemic-era federal aid.

"The transition is going to be painful for property owners, asset holders, city revenue and, therefore, government services," said Yesim Sayin, executive director of the D.C. Policy Center, a nonpartisan research organization. "We will feel the pressure of this changing economy."

That concern prompted former D.C. mayor Anthony Williams (D) and 14 developers to warn in a November letter to the city's chief financial officer that it is "vitally important for city officials to fully comprehend" the risks D.C. faces because of the diminished office market.

Williams, the executive director of the Federal City Council, a nonprofit civic and business group, said in an interview that the growing financial pressure makes the return of federal workers to their offices all the more critical. Nearly a third of downtown's workforce — or 58,600 employees — work for the federal government, according to the DowntownDC Business Improvement District.

"It's the top, top, top, A-number-one, penultimate, even-above-and-beyond priority," Williams said. "They're our major corporate partner. This is key to the city and key to our optimism in the future."

In his State of the Union speech nearly a year ago, President Biden called for federal workers to return to their offices. But his directive has been ignored enough, at least in Washington, that Bowser, in her January inaugural address, felt compelled to call for "decisive action from the White House."

The Bowser administration did not make John Falcicchio, the deputy mayor for planning and economic development, available for an interview for this article. In response to emailed questions, Falcicchio said in a statement that his office is in communication with the Biden administration "to encourage increased in-office presence for federal workers in the District and potentially transfer unused or underutilized" federal properties to the city.

Falcicchio also said that 36 percent of the federal government's D.C. leases expire on or before Dec. 31, 2025.

'They're not coming back'

Ellen Gray, who along with her husband, Todd, owns Equinox, a high-end pillar of downtown D.C.'s restaurant life since 1999, is not expecting most of the workforce — government or otherwise — to return with any regularity. Located just off Farragut Square, Equinox remains open for dinner but stopped serving lunch during the pandemic because it wasn't getting enough patrons.

“There were customers asking us to reopen for lunch, and we tried, but it wasn’t sustainable,” Gray said. “There’s nobody downtown, and they’re not coming back. I feel like the cat is out of the bag.”

Yet Gray said she remains hopeful about Equinox’s long-term prospects, if only because of the restaurant’s proximity to Washington’s best-known landmark, the various occupants of which have been known to show up over the years.

“I don’t think the White House is going anywhere,” she said. “We’re a company town, our industry is politics and we’re in a great location. Until the U.S. government goes out of business, I think we’ll be okay down here.”

Gray also said she felt buoyed by Bowser’s plan to create thousands of apartments downtown, an aspiration that includes a long-term goal of attracting 100,000 new residents to the city’s core. The mayor has said she would use tax subsidies to encourage the conversions of offices to apartments and may seek to relax height limits in certain spots as an added inducement, a change that would require congressional approval. A total of three office-to-apartment conversions have been completed downtown, while 12 more are planned or under construction, according to the downtown BID.

Yet, developers say that the conversions are not a panacea for downtown’s future. Their hurdles at the moment include rising interest rates and construction costs. They also question whether a sufficient number of offices exist that are suitable for conversion, saying that many are midblock and have partial views.

“The concept is a good one, but it’s not practical in most instances,” said Herb Miller, a longtime D.C. developer. “How do you convert an office building into apartments when 50 percent of the building doesn’t have windows?”

One developer facing that challenge is Foulger-Pratt, which is planning to turn two vacant office buildings into hundreds of apartments, one of them on New York Avenue NW, between 14th and 15th streets, and the other on 19th between L and M streets NW. “You have to add courtyards, you have to bring in air and light, you have to contort yourself to make the buildings attractive and habitable,” said Michael Abrams, a Foulger-Pratt executive.

The developer plans to include swimming pools, dog runs and pickleball courts to help lure high-income professionals willing to pay between $4,000 and $5,000 a month for two-bedroom apartments and between $8,000 and $10,000 a month for three bedrooms.

Lanier, the silver-haired veteran of more than three decades in D.C. development, has no interest in turning his downtown high-rise into an apartment complex. “Why would I do it?” he said. “I’m just speechless at the stupidity of the argument. As if nobody is going to use an office building anymore? That’s absurd.”

His challenge, he said, is divining an innovative deal that attracts post-pandemic tenants, a challenge that led him to offer incentives that include cutting his leasing price by half. “Desperation breeds creativity,” he said, comparing the inertia in the office market to “watching ice grow.”

As he waits, Lanier sometimes finds himself awake at 5 a.m., worrying that his building — his only downtown Washington office tower — will be worth less than nothing. At other moments, he imagines that something unexpected — a fire or some other emergency — will force a new tenant to materialize.

“We’re living in an irrational time — it’s conceivable that somebody will show up and say, ‘I need this building now,’” he said, conceding that his thinking may be a touch more wishful than rational.

D.C. Office Market Has No Clear Saviors As Record Vacancy Keeps Rising

July 7, 2022 | Jacob Wallace, Bisnow Washington, D.C. (https://www.bisnow.com/author/jacob-wallace-533636) (mailto:jacob.wallace@bisnow.com)

The bleeding may be slowing in D.C.'s struggling office market, but another quarter of record-high vacancy suggests big structural questions about filling older buildings still haven't been answered.

The vacancy rate in the District hit an all-time high of 19.9% last quarter, according to a new market report from CBRE (https://www.bisnow.com/tags/cbre). A report from Colliers (https://www.bisnow.com/tags/colliers) had D.C.'s vacancy rising to 17.8% and the market recording negative net absorption of 17K SF in Q2.

While those numbers are worrisome, absorption appears to be trending back toward the positive side as the new office pipeline thins, Colliers Senior Research Analyst Miles Rodnan said.

"The slowing of new construction, if that holds, will also help the market out, but I think we'll be at pretty elevated vacancy rates for a little while," Rodnan said. "We will take what we can get in the market right now."

Class-A space has seen positive demand for three straight quarters in D.C., according to Colliers, indicating the bifurcation in demand for newer and older buildings has become further entrenched.

"Just generally, there's pent-up demand, because there were so many deferrals or shelving of lease processes over the last couple of years," Randy Harrell (https://www.bisnow.com/tags/randy-harrell), a vice chairman at CBRE (https://www.bisnow.com/tags/cbre), said. "I think we're going to see a continued increase in leasing activity. What's harder to predict is the net result of what that net activity is."

The quarter has seen some major leases in trophy spaces come to fruition, including law firm Williams & Connolly's 300K SF lease (https://www.bisnow.com/washington-dc/news/office/law-firm-signs-on-to-anchor-second-phase-of-the-wharf-96030) at two new buildings in The Wharf (https://www.bisnow.com/tags/the-wharf)'s second phase, which was agreed to in 2018.

According to CBRE, 71% of tenants who moved during the pandemic upgraded the class of space they occupied and moved to a building built or renovated in the last five years.

"It doesn't necessarily mean trophy, but those trophy buildings and renovated Class-A buildings are really becoming the winners, even more so now than before," CBRE Research Manager Erin Janacek said.

Many of those relocations are for less space than companies' prior leases, and now the District's largest tenant class is starting to join that trend. The Department of Justice (https://www.bisnow.com/tags/department-of-justice) cut its footprint by 30% (https://www.bisnow.com/washington-dc/news/office/doj-reduces-its-footprint-but-at-least-it-made-a-deal-113679) when it signed a lease for new digs at 555 Fourth St. NW, one of the first major relocation deals by a federal agency in the last two years.

That downsizing is likely to continue, Colliers Research Analyst Andrew Wellman said.

"I do think there are still tenants, either through becoming more efficient in buildings or hybrid work environment, I do think there’s still potential for tenants to downsize," Wellman said. "I do think we haven't hit the peak, or hit the bottom, just yet."

Federal government tenants tend to occupy lower-cost space than law firms or tech companies, which could mean more bad news for beleaguered owners of Class-B and C office buildings. Net absorption for the two building classes was negative 148K SF this past quarter, led by negative 208K SF of net absorption in the CBD alone, according to Colliers.

Office owners told *Bisnow* last month (https://www.bisnow.com/washington-dc/news/office/office-owners-are-waiting-for-the-federal-government-to-decide-whos-remote-113610) that they have been disappointed by the follow-through on the Biden administration's statement that a "vast majority" of federal workers would be back in the office this spring. The lack of office usage could presage a shift to smaller leases for federal agencies moving forward.

"Private sector-wise, maybe we're probably getting to that point, but we're still going to have federal downsizing for years to come," Wellman said. "As much as they downsize, there's still a lot more to come, too, I think."

While big tenant relocations haven't been a boon for landlords, midsized and smaller tenants have been more active, Harrell said. He said many had "kicked the can down the road" for a new lease during the depths of the pandemic but are beginning to get a firmer grasp on their future space needs and are looking to sign in the next 12 to 24 months.

"In prior moments of surging market activity, they really hadn't been active," Harrell said. "There's swollen activity in that size range right now, and fortunately, they are moving through the process deliberately."

Coworking providers have been the District's top source of leasing demand this year, adding nearly 150K SF to the market. The sector was among the hardest hit in the early days of the pandemic — between July 2020 and January 2021, the overall occupancy of D.C.-area flexible office space providers declined by 879K SF, roughly 18% of their previous footprint, according to CBRE data at the time (https://www.bisnow.com/washington-dc/news/coworking/dc-office-market-looks-to-recover-from-string-of-coworking-closures-107886).

"Not only have we seen several coworking leases, but the health of existing coworking leases that I'm aware of has improved," Harrell said.

Still, there are long-term structural trends indicating vacancy will remain high. Besides the federal government's likely shrinkage, law firms, one of the largest tenant classes in the District, have been downsizing since before the pandemic as well, Harrell said.

But one of the biggest question marks for the D.C. office market going forward is the tech sector. The quarter has seen some notable highs, like Google (https://www.bisnow.com/tags/google)'s 130K SF sublease (https://www.bizjournals.com/washington/news/2022/04/12/google-office-space-downtown-d-c.html) at 655 New York Ave., and lows, like Yelp (https://www.bisnow.com/tags/yelp) announcing it would shutter (https://www.bisnow.com/national/news/office/yelp-closing-new-york-chicago-dc-offices-in-shift-to-remote-work-113527) its 52K SF office in Chinatown.

Despite signs that tech is now a prominent, permanent fixture (https://www.bisnow.com/washington-dc/news/office/after-years-of-false-starts-dcs-tech-sector-may-now-be-a-perpetual-driver-of-growth-112678) of the D.C. business community, Wellman said he isn't yet convinced it will take enough space to compensate for the challenges that have built up in the D.C. office market over the past decade.

"The tech industry is, I think, viewed a lot of times as maybe not a savior but as a real growth industry," Wellman said. “I think a lot of markets potentially could be saved by the growth in the tech sector. That may be the case here, but I don't think it's true in D.C. just yet."

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Securing the future of the D.C. office market

Changes in workplace technologies, accelerated by the worldwide pandemic, have altered the office market. For commercial real estate owners and lenders, it's time to find new ways to operate in the market.

IN THIS ARTICLE

By John Ratino
Goulston & Storrs
Nov 7, 2022

The Washington, D.C. office market is likely in the early stages of a big change. Arguably, it's a massive market shift that has never been experienced before, driven by an the strain of the global pandemic's dramatic and sudden shut down of traditional office buildings.

In its wake was proof that traditional in-office businesses could thrive as remote or hybrid endeavors. Not only did the new technologies make it easier to support a work-from-home culture, but people also liked working this way and have cumulatively demanded a change in where they work. However, the hybrid work culture presents real challenges to the owners, operators and lenders of office buildings, begging the question: What are the options as this unsettling pivot unfolds?

While some may find comfort in how the D.C. office market has historically weathered difficult circumstances, things don't feel quite the same this time. Unlike other major cities, Washington, D.C. has been relatively insulated from the high vacancy rates that accompany recessions. Enjoying a more stable market under the blanket of steady, federal government-related demand, Washington, D.C.'s commercial real estate owners were able to successfully hunker-down and wait out past crises. This strategy worked because in large part the past crises were crises of liquidity, in which the underlying fundamentals of the market remained unchanged. If an owner could hold on to a property for a couple of lean years, it could reasonably expect a successful rebound.

The recession of today is different because of the seismic shift in the fundamental use of office space. The occupancy of Washington, D.C.'s business districts is at a low point and a quick bounce back seems unlikely. This situation requires commercial real estate owners and lenders to find ways to operate in this new real estate market.

Emerging options for an uncertain market

business as usual this time. Lease pricing for even high-end office buildings will likely drop and tenants will be in the driver's seat until a new equilibrium is reached.

And as tenants continue to adapt to the hybrid workplace model, they will likely have new demands for retrofitting spaces to meet their needs. This could include footprint changes that use fewer individual offices but add more collaborative workspaces, upgraded ventilation systems and hospitality-style amenities to tempt workers to come into the office. In addition, tenants may require higher levels of space flexibility as new leases are signed, likely requiring more options to give back unused space or acquire additional space as they work through the hybrid work model. All these changes will require owners to work collaboratively with increasingly selective lenders because these changes, some considered outside of traditional office building mortgage underwriting, add a nuanced layer of risk for funding these properties.
· **Office conversions.** Converting office buildings into residential, hotel or mixed-use purposes is becoming a popular and important option. These complex shifts require owners to reinvest in ways they may not have anticipated or planned for. For instance, when undergoing office-to-residential conversions, it is important to sort through all the related business and legal issues involved, including affordable housing, tenants' rights, zoning and environmental matters. And with office-to-hospitality conversions, owners may enter into sophisticated hotel management and franchise agreements that have significant long-term effects on the value of their properties. Ultimately, every conversion presents unique challenges that must be overcome operationally, financially and legally.

· **Relinquishing properties.** With fewer lucrative options for lower-tier assets, owners who don't have enough equity to happens, a host of tax considerations and liability issues are triggered, such as transfer taxes or income taxes, and guarantee and other potential liabilities. Because of bankruptcy law and the way most commercial real estate loans are structured, a bankruptcy filing will not be an option in most cases. However, a Chapter 11 proceeding, with lender consent, can help in addressing high transfer taxes in some situations.

Conclusion

Washington, D.C.'s real estate market is in for a long period of flux, specifically in the office market. It shouldn't be surprising that the path forward for different properties may vary considerably, so it will be more important than ever to work with experienced multidisciplinary counsel who knows how to successfully negotiate challenging issues in leases, guide successful building conversions and, when necessary, work with lenders to manage property relinquishments cleanly and efficiently.

As office tenant leases are sorted out, more considerable changes may be coming for the new workplace environment. One thing is for certain: It is time to think strategically about what works for each property and set up a team that can make the best of one of the most challenging times in the Washington, D.C. office market.

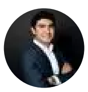
For more information about our work in the Washington, D.C. office market, please contact author John Ratino at goulstonstorrs.com/john-m-ratino or visit the firm's website at goulstonstorrs.com/office-industrial.

> *John Ratino is a real estate and real estate finance lawyer who works with lenders, developers, joint ventures, REITS, and other hotel and commercial property owners. Ratino, who is a director with Goulston & Storrs, counsels clients in connection with financings, restructurings and workouts, real estate capital markets, REITs, joint ventures,*

Jan 18, 2023 - News

Town Talker

A 2023 recession would still hurt Washington



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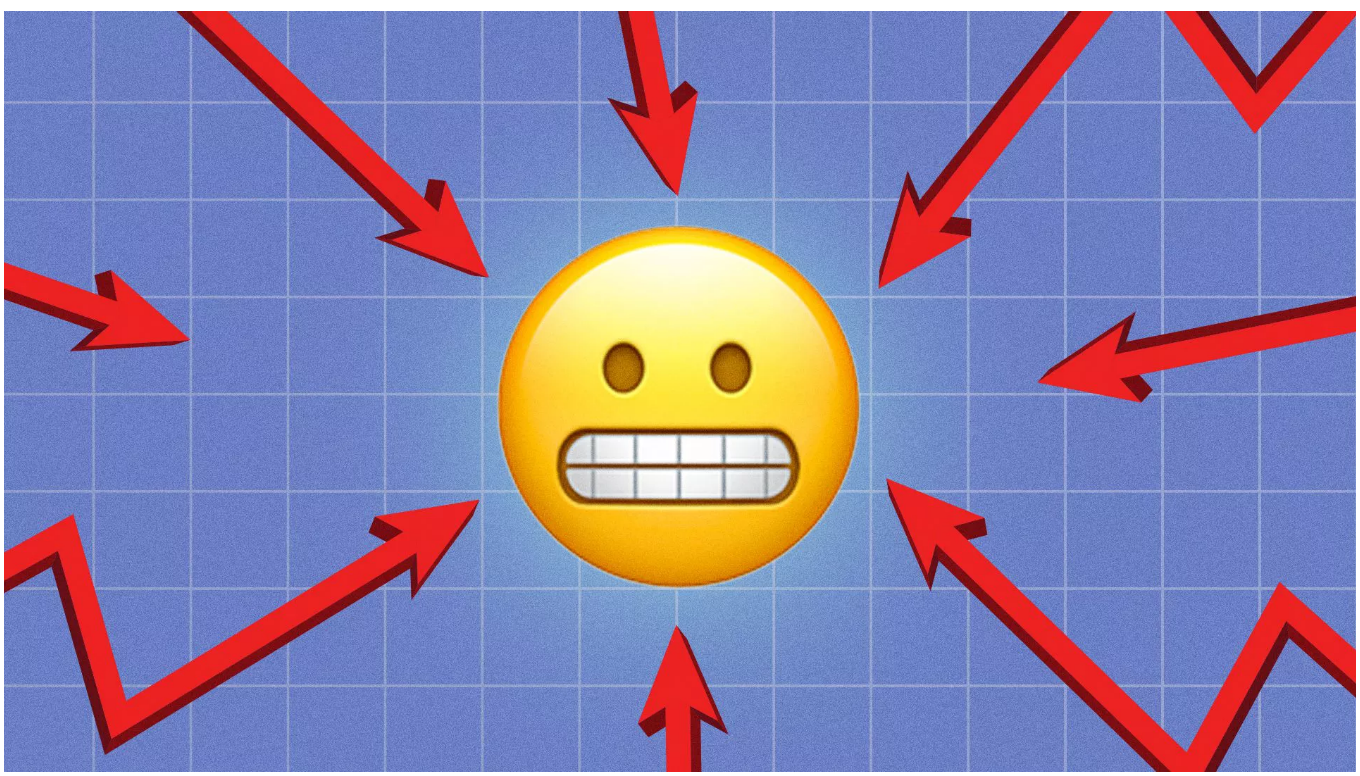

Illustration: Aïda Amer/Axios

Recession.

What I'm hearing: But relying on the federal government isn't what it used to be, local economists who are concerned about a 2023 slowdown tell Axios.

- For one, federal workers staying remote means the District is "no longer as protected" from a recession as it was in the past, says Yesim Taylor, head of the D.C. Policy Center.

And with the hollowing out of downtown and business travel still down, the region depends on the feds today nearly as much it did in 2010 — when about 40% of the local economy relied on the federal government, according to Terry Clower, who leads George Mason University's Center for Regional Analysis.

- That's a BFD, because business leaders have spent the past decade twisting to find new engines of growth.

The big picture: The region has grown economically in recent years, but not as fast as the nation. Big names like Amazon with its new HQ2, the life sciences corridor, and new data centers mask bigger problems.

- For example, the tech sphere here has a persistent labor shortage, meaning companies can't find the talent they need to put down roots and grow as much as possible. Clower says computer programming and cybersecurity jobs can be a "mixed bag," especially with a backlog of security clearances making it even harder to find employees.

- Even with Capital One Tower going up in Tysons, the region's financial services industry has lagged behind the rest of the nation, according to Jacob Sesker, a local economist at Harpswell Strategies.

- All that is coupled with the fact that there is a high cost of living and regional leaders who don't collaborate enough to attract big employers.

- Sesker says he'll be watching hotel bookings, inbound flights, and transit usage to see “whether the summer is going to be a good summer for retail [and] restaurant hospitality employment.”

The bottom line: 2023 was supposed to be the first “normal” year since the pandemic, but a global recession — still predicted by most economists, even as inflation slows — is putting a damper on outlooks.

- With no industry poised to drive substantial growth in the region, “maybe the best we can hope for in 2023 is steady as she goes,” Sesker adds.

💭 *Spotted by me last Friday: Former mayor Adrian Fenty, back in D.C. lunching at Zaytinya.*

Town Talker is a weekly column on local politics and power. Drop me a line about the talk of the town: cuneyt@axios.com

MBA's Take on the Future of Office Demand

By Scott Baltic
(https://www.commercialsearch.com/news/author/scott baltic/)

September 12, 2022

(https://www.facebook.com/sharer.php?u=https%3A%2F%2Fwww.commercialsearch.com%2Fnews%2Fmba-takes-a-stab-at-untangling-future-of-office-demand%2F)

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A new white paper looks to the labor market for insights.

(https://www.commercialsearch.com/news/wp-content/uploads/sites/46/2022/07/austin-distel-wawEfYdpkag-unsplash-e1659090397441.jpg)

Photo by Austin Distel via unsplash.com

With the office market still in turmoil nationwide, the **Mortgage Bankers Association**'s latest white paper (https://img03.en25.com/Web/MortgageBankersAssociation/%7Bf48b8863-6cb5-4f70-8c6d-d296decea85e%7D_24321_Research_Post_Pandemic_Office_Demand_Report.pdf?utm_campaign=Office%20White%20Paper%20-%209-9-22&utm_medium=email&utm_source=Eloqua) aims to clarify some of the sector's underlying issues by focusing on the labor market.

Co-authors Senior VP & Chief Economist Mike Fratantoni and VP of Commercial Real Estate Research Jamie Woodwell center their analysis—A Framework for Considering Office Demand in a Post-pandemic World—on a comparison of two contrasting scenarios for a post-pandemic office market.

In one, designated the "base case," hybrid work continues, and most workers come into the office two or three days a week at most. In the alternative case, there's a significant shift back to pre-pandemic conditions, with most workers spending three or more days a week in the office.

READ ALSO: 5 Ways CRE Investors Can Get Recession-Ready (https://www.commercialsearch.com/news/5-ways-cre-investors-can-get-recession-ready/)

One of the pivotal factors here is whether the labor market remains tight, favoring employees and thus remote or hybrid work, or loosens up in the near future, letting employers push for more in-person work.

Another dimension that Fratantoni and Woodwell explore is the trade-off between short-term and long-term benefits. The former are more tangible to both employers and workers, while the latter "have—thus far—remained largely notional to both workers and employers."

A crucial long-term benefit to more in-office work is the development of workplace capital, the intangible organizational boost that comes from interpersonal connections and communications. The white paper puts it this way: "In-person work builds workplace capital while fully remote work stalls the development and hastens the drawing down of that workplace capital."

A related element is "proximity bias," for which the authors cite an April 4, 2022, Forbes article by Joe Du He defines this as "the phenomenon in which those who are physically closer to company leaders enjoy ed influence and advancement opportunities relative to those who are hybrid or fully remote."

It comes from such everyday things as side conversations happening as a meeting is breaking up, or a manager assigning a task just by looking around the table and seeing who's there.

The bottom line?

Using the dot.com crash as an example, the white paper suggests that if the base case (hybrid work remains dominant) occurs, "occupancy rates, property net incomes and values [could] all fall by 20 percent (all else being equal) or more as leases roll over the coming decade."

In the alternative case, workers would return to the office in greater numbers, in part to avoid missing out on career opportunities. If that were to happen, there would be a gradual return to something more resembling the pre-pandemic office market.

But neither the "office market" nor "office demand" is monolithic. The white paper states: "Demand for office will be determined by the mix and how many—and what types and sizes of firms—pursue which. There will likely be concentrations in approaches by industry, geography, firm size and more."

Finally, the future won't be either/or with respect to a return to the office, Fratantoni and Woodwell say: "… in either path, it is unlikely that we will see the office market return to its former shape, size and dimensions."

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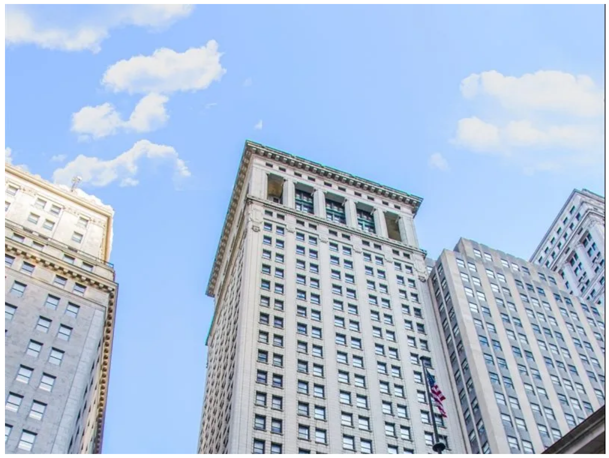

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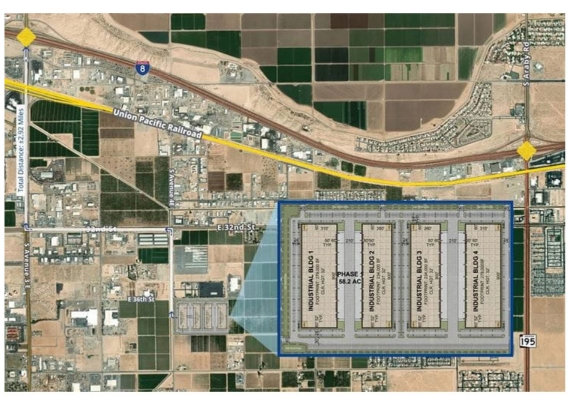

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